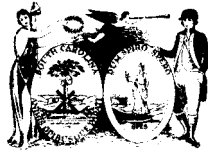


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

October 23, 2002

Ms. Myria A. Polydorou, Vice President - Finance  
Health Care Corporation  
Post Office Box 5419  
Spartanburg, South Carolina 29304

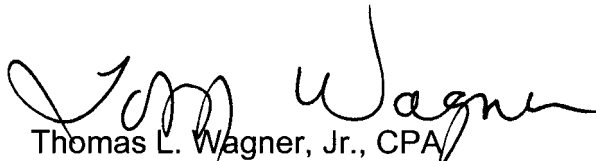
Re: AC# 3-VFT-J9 – Valley Falls Terrace, Inc. d/b/a Valley Falls Terrace Nursing Center

Dear Ms. Polydorou:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1998 through September 30, 1999. That report was used to set the rate covering the contract period beginning October 1, 2000.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Joseph P. Hayes

**VALLEY FALLS TERRACE, INC.  
D/B/A VALLEY FALLS TERRACE NURSING CENTER  
SPARTANBURG, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2000  
AC# 3-VFT-J9**

**AGREED-UPON PROCEDURES REPORT  
ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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# State of South Carolina



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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 9, 2002

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Valley Falls Terrace, Inc. d/b/a Valley Falls Terrace Nursing Center, for the contract period beginning October 1, 2000, and for the twelve month cost report period ended September 30, 1999, as set forth in the accompanying schedules. The management of Valley Falls Terrace, Inc. d/b/a Valley Falls Terrace Nursing Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

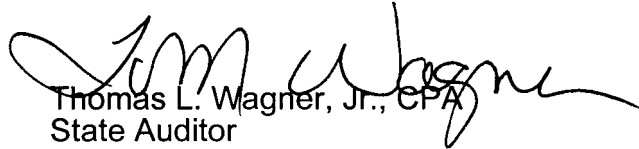
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Valley Falls Terrace, Inc. d/b/a Valley Falls Terrace Nursing Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Valley Falls Terrace, Inc. d/b/a Valley Falls Terrace Nursing Center dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
September 9, 2002

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

**VALLEY FALLS TERRACE NURSING CENTER**

Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2000  
AC# 3-VFT-J9

	10/01/00- <u>09/30/01</u>
Interim Reimbursement Rate (1)	\$90.59
Adjusted Reimbursement Rate	<u>89.99</u>
Decrease in Reimbursement Rate	\$ <u><u>.60</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

**VALLEY FALLS TERRACE NURSING CENTER**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 2000 Through September 30, 2001  
AC# 3-VFT-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$41.36	\$53.99	
Dietary		10.04	10.56	
Laundry/Housekeeping/Maintenance		<u>7.91</u>	<u>9.12</u>	
Subtotal	\$ <u>5.16</u>	59.31	73.67	\$59.31
Administration & Medical Records	\$ <u>3.59</u>	<u>7.61</u>	<u>11.20</u>	<u>7.61</u>
Subtotal		66.92	\$ <u>84.87</u>	66.92
<u>Costs Not Subject to Standards:</u>				
Utilities		1.95		1.95
Special Services		.02		.02
Medical Supplies & Oxygen		4.57		4.57
Taxes and Insurance		1.15		1.15
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		\$ <u>74.61</u>		74.61
Inflation Factor (3.20%)				2.39
Cost of Capital				7.20
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.61
Cost Incentive				5.16
Effect of \$1.75 Cap on Cost/Profit Incentives				(6.02)
Nurse Aide Staffing Add-On 10/01/00				2.78
Nurse Aide Staffing Add-On 10/01/99				<u>1.26</u>
ADJUSTED REIMBURSEMENT RATE				\$ <u>89.99</u>

**VALLEY FALLS TERRACE NURSING CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1999  
AC# 3-VFT-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,317,793	\$ -	\$ -	\$1,317,793
Dietary	319,925	-	-	319,925
Laundry	46,315	-	-	46,315
Housekeeping	123,951	-	-	123,951
Maintenance	81,683	-	-	81,683
Administration & Medical Records	258,089	-	15,649 (2)	242,440
Utilities	62,119	-	-	62,119
Special Services	765	-	-	765
Medical Supplies & Oxygen	145,508	-	-	145,508
Taxes and Insurance	36,554	-	-	36,554
Legal Fees	21	-	-	21
Cost of Capital	232,607	510 (4)	3,773 (1) 27 (3)	229,317
Subtotal	2,625,330	510	19,449	2,606,391



**VALLEY FALLS TERRACE NURSING CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1999  
AC# 3-VFT-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments		Adjusted Totals
		<u>Debit</u>	<u>Credit</u>	
Ancillary	17,583	-	-	17,583
Non-Allowable	20,111	3,773 (1)	510 (4)	39,050
		15,649 (2)		
		<u>27 (3)</u>		
Total Operating Expenses	<u>\$2,663,024</u>	<u>\$19,959</u>	<u>\$19,959</u>	<u>\$2,663,024</u>
Total Patient Days	<u>31,864</u>	<u>-</u>	<u>-</u>	<u>31,864</u>
Total Beds	<u>88</u>			

**VALLEY FALLS TERRACE NURSING CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 1999  
AC# 3-VFT-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$41,255	
	Nonallowable	3,773	
	Fixed Assets		\$24,653
	Other Equity		16,602
	Cost of Capital		3,773
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	15,649	
	Administration		15,649
	To disallow working capital interest HIM-15-1, Section 202.2		
3	Nonallowable	27	
	Cost of Capital		27
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
4	Cost of Capital	510	
	Nonallowable		510
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$61,214</u>	<u>\$61,214</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**VALLEY FALLS TERRACE NURSING CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1999  
AC# 3-VFT-J9

	<u>Old Beds</u>	<u>New Beds</u>	
Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.3156</u>	<u>2.3156</u>	
Deemed Asset Value (Per Bed)	36,165	36,165	
Number of Beds	<u>52</u>	<u>36</u>	
Deemed Asset Value	1,880,580	1,301,940	
Improvements Since 1981	138,979	40,589	
Accumulated Depreciation at 9/30/99	<u>(421,704)</u>	<u>(394,036)</u>	
Deemed Depreciated Value	1,597,855	948,493	
Market Rate of Return	<u>.060</u>	<u>.060</u>	
Total Annual Return	95,871	56,910	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	95,871	56,910	
Depreciation Expense	29,122	47,145	
Amortization Expense	159	110	
Capital Related Income Offsets	-	-	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	125,152	104,165	\$229,317
Total Patient Days (Actual)	<u>18,829</u>	<u>13,035</u>	<u>31,864</u>
Cost of Capital Per Diem	\$ <u><u>6.65</u></u>	\$ <u><u>7.99</u></u>	\$ <u><u>7.20</u></u>

**VALLEY FALLS TERRACE NURSING CENTER**  
 Cost of Capital Reimbursement Analysis  
 For the Cost Report Period Ended September 30, 1999  
 AC# 3-VFT-J9

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$3.02
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$7.01</u>
Reimbursable Cost of Capital Per Diem	\$7.20
Cost of Capital Per Diem	<u>7.20</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

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